

Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Maze Analyst: Jane Tolman Bill Number: AB 988Related Bills: See Legislative History Telephone: 845-6111 Amended Date: 05-14-2003Attorney: Patrick Kusiak Sponsor: _____**SUBJECT:** Health Professional Shortage Area Medical Care Professionals Credit

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended March 25, 2003.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- _____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- ☒ FURTHER AMENDMENTS NECESSARY.
- _____ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 25, 2003 STILL APPLIES.
- _____ OTHER - See comments below.

SUMMARY

This bill would allow a tax credit for doctors who treat Medi-Cal beneficiaries in specified counties.

SUMMARY OF AMENDMENTS

The May 14, 2003, amendments:

- define the amount of the credit, who is eligible, and the credit criteria,
- require the Franchise Tax Board (FTB) to report annually to the Legislature on the use of the credit and allows any unused credit to be carried over for seven years, and
- eliminate the credit for corporate business entities.

These items are discussed in detail below under THIS BILL.

The amendments resolved the implementation concerns identified in the department's analysis of the bill as introduced February 20, 2003. As a result of the amendments, a new revenue estimate and a new technical and policy consideration have been included below. The remainder of the department's analysis of the bill as introduced March 25, 2003, still applies.

Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

Department Director
Brian PutlerDate
06/03/03

THIS BILL

This bill would allow a credit of 20 percent of total income derived from treating Medi-Cal beneficiaries during the taxable year by a qualified doctor who practices in a qualified county.

This bill would define a “qualified medical care professional” to mean a physician, surgeon, optometrist, or dentist, who is licensed to practice medicine, surgery, optometry, or dentistry in the State of California and who either treats Medi-Cal beneficiaries on a fee-for service basis, or is a salaried employee at a qualified health center in California.

A medical care professional that treats Medi-Cal beneficiaries in a qualified county would calculate the credit as 20 percent of the amount received, and a medical care professional that is an employee of qualified health center would calculate the credit as 10 percent of the salary received. Eligible taxpayers would be required to make an irrevocable election with respect to the calculation of the amount of the credit for each taxable year for which the credit is claimed.

The taxpayer would be allowed to carry over the unused credit for seven years.

FTB would be required to report annually to the Legislature on the use of the credit. Corporate business entities would be excluded from this credit.

TECHNICAL CONSIDERATION

The attached amendment corrects the credit carryover language. Some of the credit carryover language was inadvertently omitted from the previous amendments provided to the author.

ECONOMIC IMPACT

Revenue Estimate

The revenue estimate losses of this bill are \$7 million annually beginning in 2003-04. The reduction of tax liability contributes to the revenue loss and the disallowance of corporate income taxpayers participating in the credit does not counter that loss.

It is estimated that a credit equal to 20 percent of a medical professional’s income from Medi-Cal or 10 percent of a medical professional’s salary as an employee, would result in losses on the order of \$7 million per year (450 physicians x \$10,000 average tax liability, 300 dentists x \$6,200 average tax liability, 80 optometrists x \$4,500 average tax liability) beginning in 2003-04.

Revenue Discussion

Revenue losses that would result from this bill depend on several factors such as the number of qualified medical care professionals that provide or would start to provide medical services in the area that qualify under this bill; the amount of income derived from treating Medi-Cal beneficiaries in these areas; the taxable income reported by these medical professionals in any given year; and the utilization of the credit for each taxable year.

Using the criteria of a qualified county, twenty five percent of the population is Medical-Cal beneficiaries and unemployment is at least ten percent, only five counties would currently be eligible. These counties are Fresno, Imperial, Merced, Yuba, and Tulare. Based on population data from the 2000 census, the population in these five counties was approximately 1.6 million. If it is assumed there is exactly a 3,500 to 1 ratio for physicians, there are approximately 450 physicians practicing in these areas. For purposes of this analysis, it is assumed that virtually all of these physicians provide services to Medi-Cal beneficiaries. Further, it is assumed that there is 1 dentist for every 5,000 persons and 1 optometrist for every 20,000 persons and they also provide services to Medi-Cal beneficiaries. These ratios are based on the federal requirements for determining whether an area has a health care professional shortage.

For purposes of this bill, it was assumed that the average income tax liability for physicians who would take the credit would be approximately \$10,000 (average income of \$200,000 x .05 average tax rate), the average income tax liability for dentist who would take the credit would be approximately \$6,200 (average income of \$124,000 x .05 average tax rate), and the average income tax liability for optometrist who would take the credit would be approximately \$4,500 (average income of \$90,000 x .05 average tax rate). Further, it was assumed that if either credit were used, they would effectively eliminate their tax liability. The 20 percent credit would eliminate their tax liability if 25 percent of their income were derived from Medi-Cal beneficiaries. The 10 percent credit would eliminate their tax liability since it assumed that the average tax rate is only 5 percent.

POSITION

Pending.

POLICY CONCERNS

This bill would provide a tax benefit for personal income taxpayers that would not be provided to corporate taxpayers. A medical care professional that has incorporated their medical practice would not be eligible for this credit, thus this bill would provide differing treatment based solely on business entity.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB988
As Amended

AMENDMENT 1

On page 3, line 25, delete "seven years" and insert:

year, and the seven succeeding years if necessary, until the credit is exhausted.